OlsenThielen & Co., Ltd.
CPAS AND ADVISORS

Textile Center of Minnesota

Financial Statements
Together with
Independent Auditors' Report

March 31, 2021

TEXTILE CENTER OF MINNESOTA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Textile Center of Minnesota
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Textile Center of Minnesota (a nonprofit organization), which comprise the statement of financial position as of March 31, 2021 and 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Textile Center of Minnesota as of March 31, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Olsen Thielen & Co., Ltd.

Roseville, Minnesota
August 18, 2021

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TEXTILE CENTER OF MINNESOTA

STATEMENT OF FINANCIAL POSITION
MARCH 31, 2021 AND 2020

ASSETS

	2021	2020
CURRENT ASSETS:		
Cash	**$ 463,699**	$ 283,875
Receivables	**193,317**	300,033
Inventory	**13,251**	13,183
Prepaid Expenses	**5,250**	9,586
Total Current Assets	**675,517**	606,677
INVESTMENTS - LONG-TERM	**428,067**	294,178
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	**1,734,341**	1,708,812
Land	**523,903**	523,903
Office Furniture and Equipment	**158,532**	154,232
Computers, Software, Peripherals	**46,685**	45,809
Library Collectibles	**21,167**	21,167
Less Accumulated Depreciation	**(1,104,799)**	(1,051,850)
Net Property and Equipment	**1,379,829**	1,402,073
TOTAL ASSETS	**$ 2,483,413**	$ 2,302,928

LIABILITIES AND NET ASSETS

	2021	2020
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	**$ 8,760**	$ 8,400
Accounts Payable	**16,225**	29,680
Accrued Wages and Benefits	**36,493**	39,518
Other Payables and Accrued Expenses	**–**	173
Deferred Revenue	**37,881**	81,057
Total Current Liabilities	**99,359**	158,828
LONG-TERM DEBT, Less Current Portion	**499,957**	300,117
NET ASSETS:		
Without Donor Restrictions	**1,183,632**	1,225,329
With Donor Restrictions	**700,465**	618,654
Total Net Assets	**1,884,097**	1,843,983
TOTAL LIABILITIES AND NET ASSETS	**$ 2,483,413**	$ 2,302,928

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Support:			
Grants and Donations	$ 364,460	$ 90,900	$ 455,360
Government Support	65,380	40,000	105,380
Total Support Revenue	429,840	130,900	560,740
Program Revenue:			
Education	177,032	–	177,032
Rental Income	49,664	–	49,664
Memberships	35,005	–	35,005
Event	35,217	–	35,217
Less: Direct Expense	(13,449)	–	(13,449)
Other Income	22	–	22
Total Program Revenue	283,491	–	283,491
Net Assets Released from Restrictions	198,224	(198,224)	–
Total Revenues	911,555	(67,324)	844,231
EXPENSES:			
Program Services	781,510	–	781,510
General and Administrative	109,362	–	109,362
Fundraising and Development	65,521	–	65,521
Total Expenses	956,393	–	956,393
GENERAL OPERATING, NET	(44,838)	(67,324)	(112,162)
INVESTMENT INCOME	3,141	149,135	152,276
CHANGE IN NET ASSETS	(41,697)	81,811	40,114
NET ASSETS at Beginning of Year	1,225,329	618,654	1,843,983
NET ASSETS at End of Year	$ 1,183,632	$ 700,465	$ 1,884,097

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES (Continued)
YEAR ENDED MARCH 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Support:			
Grants and Donations	$ 242,775	$ 460,000	$ 702,775
Government Support	71,702	–	71,702
Total Support Revenue	314,477	460,000	774,477
Program Revenue:			
Education	483,325	–	483,325
Rental Income	62,454	–	62,454
Memberships	50,187	–	50,187
Event	83,054	–	83,054
Less: Direct Expense	(21,405)	–	(21,405)
Other Income	986	–	986
Total Program Revenue	658,601	–	658,601
Net Assets Released from Restrictions	295,363	(295,363)	–
Total Revenues	1,268,441	164,637	1,433,078
EXPENSES:			
Program Services	1,060,542	–	1,060,542
General and Administrative	107,648	–	107,648
Fundraising and Development	95,982	–	95,982
Total Expenses	1,264,172	–	1,264,172
GENERAL OPERATING, NET	4,269	164,637	168,906
INVESTMENT INCOME (LOSS)	133	(29,695)	(29,562)
CHANGE IN NET ASSETS	4,402	134,942	139,344
NET ASSETS at Beginning of Year	1,220,927	483,712	1,704,639
NET ASSETS at End of Year	$ 1,225,329	$ 618,654	$ 1,843,983

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2021

	Program Services	General and Administrative	Fundraising and Development	Total Expense
Salaries, Taxes and Benefits	$ 468,157	$ 70,341	$ 56,681	$ 595,179
Program Activities and Supplies	76,753	–	–	76,753
Facilities, Utilities, Maintenance and Cleaning	49,807	2,506	1,504	53,817
Depreciation	48,766	2,595	1,588	52,949
Cost of Goods Sold	49,891	–	–	49,891
Professional Services	17,565	19,282	576	37,423
Tech Support and Website Expense	20,486	5,894	832	27,212
Insurance	11,472	561	336	12,369
Capital Campaign Expenses	10,942	582	356	11,880
Credit Card, Bank and Filing Fees	7,796	2,602	–	10,398
Marketing and Printing	6,553	122	1,653	8,328
Miscellaneous	4,118	1,379	279	5,776
Postage	5,007	263	326	5,596
Professional Development, Dues and Subscriptions	2,646	2,499	–	5,145
Consulting	–	–	1,300	1,300
Office and Other Supplies	742	109	90	941
Hospitality	264	627	–	891
Mileage and Transport Expense	545	–	–	545
Total Functional Expense	$ 781,510	$ 109,362	$ 65,521	$ 956,393

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES (Continued)
YEAR ENDED MARCH 31, 2020

	Program Services	General and Administrative	Fundraising and Development	Total Expense
Salaries, Taxes and Benefits	$ 475,947	$ 60,401	$ 70,379	$ 606,727
Program Activities and Supplies	176,455	281	180	176,916
Cost of Goods Sold	134,486	–	–	134,486
Capital Campaign Expenses	56,285	3,012	1,807	61,104
Facilities, Utilities, Maintenance and Cleaning	49,406	2,648	1,571	53,625
Depreciation	45,078	2,398	1,468	48,944
Professional Services	14,912	16,951	7,693	39,556
Tech Support and Website Expense	21,281	5,706	1,115	28,102
Mileage and Transport Expense	17,321	–	2,235	19,556
Marketing and Printing	15,606	289	3,322	19,217
Credit Card, Bank and Filing Fees	15,931	3,066	–	18,997
Postage	9,637	804	926	11,367
Insurance	10,160	544	326	11,030
Hospitality	4,869	4,164	1,504	10,537
Miscellaneous	4,670	4,532	411	9,613
Professional Development, Dues and Subscriptions	5,396	2,020	–	7,416
Office and Other Supplies	3,011	818	589	4,418
Consulting	–	–	2,438	2,438
Parking	91	14	18	123
Total Functional Expense	$ 1,060,542	$ 107,648	$ 95,982	$ 1,264,172

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF CASH FLOWS
YEARS ENDED MARCH 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	**$ 40,114**	$ 139,344
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Unrealized Losses (Gains) on Investments	**(145,077)**	39,148
Realized Gains on Investments	**(1,144)**	(502)
Depreciation	**52,949**	48,944
Changes in Assets and Liabilities:		
Receivables	**106,716**	(117,230)
Inventory	**(68)**	(2,200)
Prepaid Expenses	**4,336**	12,417
Accounts Payable	**(13,455)**	9,009
Accrued Wages and Benefits	**(3,025)**	12,365
Other Payables and Accrued Expenses	**(173)**	(31,144)
Deferred Revenue	**(43,176)**	5,454
Net Cash Flows From Operating Activities	**(2,003)**	115,605
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	**19,272**	13,720
Purchase of Investments	**(6,940)**	(7,831)
Purchase of Property and Equipment	**(30,705)**	(40,510)
Net Cash Flows From Investing Activities	**(18,373)**	(34,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of PPP Loans	**208,600**	–
Principle Payments on Long-Term Debt	**(8,400)**	(8,020)
Net Cash Flows From Investing Activities	**200,200**	(8,020)
NET CHANGE IN CASH	**179,824**	72,964
CASH at Beginning of Year	**283,875**	210,911
CASH at End of Year	**$ 463,699**	$ 283,875

The accompanying notes are an integral part of the financial statements.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Textile Center of Minnesota (the Organization) is a not-for-profit organization dedicated to honoring textile traditions, promoting excellence and innovation, and inspiring widespread participation in fiber art. The Organization is a regionally based national center for fiber art, and its facility serves as a central place for artists, guilds, enthusiasts, youth and adults to gather, meet, study and participate in fiber art exhibition and education programs. It is the only facility in the Midwest that represents all fiber art forms. Fiber art is broadly defined to include weaving, quilting, knitting, sewing, dyeing, needlework, lace making, basketry, and beading. The Organization receives a majority of its revenue through program services and contributions from individuals and foundations. The Organization's programs advance the development of fiber artists, support a vibrant fiber art community and provide public access to excellent fiber art programs. The Organization's programs are as follows:

Education – The Organization provides fiber art education services to adults and youth at all skill levels. Workshops, classes, seminars, and lectures cover a wide range of fiber art forms and techniques. In-depth learning experiences are provided through the mentor program and fiber artist grant program. The Organization sponsors a national symposia and conferences with presentations by renowned fiber artists. Many education services focus on dye techniques and utilize the Textile Center Ellen Errede Wells Dye Lab. The Pat O'Connor Library houses on of the nation's largest circulating collection of fiber art books, periodicals and media materials, and individuals use this resource for research and inspiration. The library also hosts presentation by authors of recently published fiber art books. The Organization's website, social media and its print and electronic communications keep the textile community informed and connected with information about programs, opportunities and events.

Community Outreach – The Organization delivers outreach services to youth, families and adults and promotes involvement in textiles. Special emphasis is placed on serving individuals with low income, new immigrants and youth and adults living with disabilities. The Organization conducts free fiber art programs across the region in partnership with social service agencies, schools, recreation centers, public libraries, community center and public housing complexes. The Organization also participates in joint ventures with cultural organizations and businesses. Tours of gallery exhibitions and the facility are provided to groups of children and adults.

Exhibition and Shows – The Organization presents exhibitions of high caliber artwork by artists from the region and around the world. These juried, invitational, and member exhibitions showcase both mastery in technique and cutting-edge innovations. Exhibitions are presented in the Joan Mondale Gallery, Community Gallery, Studio Gallery and Library Gallery. The touring exhibitions travel to venues across the country. Exhibitions are free and open to the public. The Textile Center Shop sells fiber art and textiles that are accepted though a jury process as well as fiber art books and supplies.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of Textile Center of Minnesota and related changes are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Board of Directors has discretionary control. Designated amounts represent those net assets that the Board of Directors has set aside for a particular purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through August 18, 2021, the date the financial statements were available to be issued. Except as discussed below in Note 6, there were no subsequent events that required recognition or disclosure in the financial statements.

Receivables

Receivables are stated at net realizable value. The Organization provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on prior experience and management's assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

Contributions receivable consists of unconditional promises to give and are recognized as revenue in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is the estimated selling price in the ordinary course of business. Inventory consists of books, accessories, dye supplies, fibers, etc. that are held for resale and used in the educational courses offered by the Organization.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements or major renewals exceeding $750 are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Contributed equipment is recorded at fair market value at date of donation. If the donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted.

Depreciation is computed using the straight-line method at rates based on the estimated service or remaining useful lives of the various assets. Estimated service lives of the various assets are as follows:

Furniture and Equipment	3-10 Years
Computer and Software	3-5 Years
Buildings & Improvements	10-39 Years

Library Collectibles

The Organization records its collections at cost. Donated collections are capitalized at their fair value on the acquisition date. Gains or losses on the disposal of collection items are classified on the statement of activities as with or without donor restricted support depending on donor restrictions, if any, placed on the item at the time of acquisition. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and the Organization is protecting and preserving essentially undiminished the service potential of the collection item. No depreciation has been recorded on the Organization’s collections.

Investments

Investments in marketable securities are stated at fair value, which is determined by quoted market prices in active markets. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined using the specific identification method. Interest and dividend income are reported as income when earned.

Deferred Revenue

Deferred revenue consists of class registrations, rental income, and gift cards received but not yet expended. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statement of financial position.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Effective April 1, 2020, the Organization adopted Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* (Topic 606) and all subsequently issued clarifying ASU's which replaced most existing revenue recognition guidance in US Generally Accepted Accounting Principles (GAAP). The new guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this new guidance was done using the modified retrospective method. The Organization applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of April 1, 2020. Results for reporting periods beginning after April 1, 2020, are presented under Topic 606 while prior periods amounts are not adjusted and continue to be reported in accordance with legacy GAAP.

The adoption of this new standard did not result in a material impact to the Organization's financial statements. There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative effect adjustment to net assets at the date of adoption under the modified retrospective method.

The significant sources of revenue and support for the Organization are discussed below.

<u>Contribution and Grant Revenue</u>

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

Contributed materials are recorded as contributions, when received, at their fair market value when such value can be objectively and accurately determined.

<u>Government Grants</u>

Government grants are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant, are made. Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants, the Organization will record such disallowance at the time the final assessment is made. Management believes that any disallowances, if any, would not have a significant effect on the statement of financial position.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Education Revenue

The Organization offers over 150 classes, lectures, seminars and workshops to adults and youth at all skill levels. Registration fees for these educational programs are billed to the participant at the time of registration. The revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the registrant access to the educational program. Revenue is recognized at the point in time the educational program is held and the Organization's performance obligation to hold the educational program is completed. Registration for the Organization's programs open months before they programs are scheduled to be held. Cash receipts for registrations collected in advance of the program are deferred as contact liabilities until earned when the program is held at which point the revenue is recognized.

As a practical expedient, the Organization groups similar contracts or similar performance obligations together into portfolios of contracts if doing so does not result in a significant difference from applying the new accounting standard to the individual contracts.

Contract liabilities include deferred revenues related to advanced payments for registrations to the Organization's educational courses and workshops. These deposits are deferred until the performance obligations are completed. Contract liability balances were $37,881 at March 31, 2021 and $81,057 at March 31, 2020 with the adoption of the new standard.

There are no significant contract assets recognized on the financial statements under the new standard.

Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash with high quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Organization had a credit risk concentration as a result of depositing $206,071 of funds in excess of insurance limits in a single bank.

Donated Services

Donated services are recognized for services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would ordinarily be purchased if not provided by donation. Donated services are recorded at fair market value. Contributed services, including promises to give, that do not meet these criteria are not recognized.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expense

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

1) Salaries and wages, benefits, and payroll taxes are allocated based on the amounts of time spent by employees performing those functions.
2) Occupancy, depreciation, and amortization, and interest are allocated on a square foot basis based on the programs and supporting activities occupying the space.
3) Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of salaries and wages.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in support received in future years.

Income Taxes

The Organization is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is subject to federal and state income tax only on net unrelated business income.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities.

The Organization has identified no income tax uncertainties. The Organization files information returns as a tax-exempt Organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were $2,398 and $4,289 for 2021 and 2020.

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Under generally accepted accounting principles, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3 - Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The Organization uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The fair values of the Organization's investments were determined based on inputs as presented in Note 3.

Endowments

The Organization follows the provisions of the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA). This provides guidance on the classification of endowment net assets and enhances disclosure for endowment funds. Under UPMIFA all unappropriated endowment funds are considered restricted net assets.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. It is to be adopted using the modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

Risks and Uncertainties

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may impact operations and financial statements.

NOTE 2 - RECEIVABLES

The following is a schedule of contributions receivable at March 31, 2021 and 2020:

	2021	2020
Contributions Receivable Within 1 Year	**$ 188,438**	$ 293,413
Other Receivables	**4,879**	6,620
Less Allowance for Uncollectible Pledges	**–**	–
Total Receivables	**$ 193,317**	$ 300,033

NOTE 3 - INVESTMENTS

The Organization holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the statement of financial position.

The Organization's investments consisted of the following at March 31, 2021 and 2020:

	2021		2020	
	Cost	**Fair Value**	Cost	Fair Value
Mutual Funds	**$ 170,776**	**$ 428,067**	$ 181,964	$ 294,178
Total	**$ 170,776**	**$ 428,067**	$ 181,964	$ 294,178

Return on short-term and long-term investments and cash for the years ended March 31, 2021 and 2020 consisted of the following:

	2021	2020
Interest and Dividend Income	**$ 6,055**	$ 9,084
Unrealized Gain (Loss) on Investments	**145,077**	(39,148)
Realized Gains on Investments	**1,144**	502
Total Investment Income (Loss)	**$ 152,276**	$ (29,562)

NOTE 3 - INVESTMENTS (Continued)

Fair values of investments at March 31, 2021 and 2020 were determined as follows:

Description	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2021:				
Mutual Funds	**$ 428,067**	**$ 428,067**	**$ –**	**$ –**
Totals	**$ 428,067**	**$ 428,067**	**$ –**	**$ –**
2020:				
Mutual Funds	$ 294,178	$ 294,178	$ –	$ –
Totals	$ 294,178	$ 294,178	$ –	$ –

The fair values of the Organization's mutual funds were determined based on Level 1 inputs.

NOTE 4 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization receives significant revenues from grants and donations, government support and education services. Revenues include contributions with donor restrictions that may not be available for expenditure in the near-term but may be expended by the end of the next fiscal year. The Organization manages its liquidity and reserves operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintain sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization has a policy to structure its financial assets to be available for its general expenditures, liabilities, and as other obligations come due. To manage unanticipated liquidity needs, the Organization has committed lines of credit of $125,000 which it could draw upon.

The following table reflects the Organization's financial assets as of March 31, 2021 and 2020 that are available to meet general expenditures within the next year.

	2021	2020
Available for General Expenditures:		
Cash	**$ 463,699**	$ 283,875
Receivables	**193,317**	300,033
Long-Term Investments	**428,067**	294,178
Total	**1,085,083**	878,086
Less Donor Imposed Purpose Restricted Net Assets	**652,965**	581,131
Amounts Available for General Expenditure Within One Year	**$ 432,118**	$ 296,955

The above table reflects donor-restricted funds as unavailable because it is the Organization's intention to invest those resources for the long-term support of the Organization.

NOTE 5 - LINE OF CREDIT

The Organization has a $125,000 revolving line of credit that carries a variable interest rate at prime (3.25% at March 31, 2021) plus .5%. The credit line expires May 2, 2022. There were no borrowings on the line of credit at March 31, 2021.

NOTE 6 - LONG-TERM DEBT

Long-term debt is as follows:

	2021	2020
Note payable to Sunrise Banks, N.A. in monthly installments of $1,791 at a variable interest rate. The note is due January 23, 2028 and is secured by property.	**$ 306,530**	$ 314,930
PPP Loans	**208,600**	
Less Unamortized Debt Issuance Costs	**(6,413)**	(6,413)
Total	**508,717**	308,517
Less Amount Due Within One Year	**(8,760)**	(8,400)
Total	**$ 499,957**	$ 300,117

Cash payments for interest were $13,093 in 2021 and $13,473 in 2020.

The Organization must comply with various loan covenants on its note payable to Sunrise Banks, including a debt service coverage ratio in excess of 1.20. At March 31, 2021, the Organization's debt service coverage ratio was 4.94.

Principal payments required during the next five years are: 2022 - $8,760; 2023 - $9,136; 2024 - $9,496; 2025 - $9,935; and 2026 - $10,362.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Part of CARES was the Paycheck Protection Program (PPP) which allowed for Organizations to apply for a potentially forgivable loan if the proceeds were used for the specified purposes. In April 2020, the Organization received a PPP loan for $98,700. Subsequent to year end, the Organization received a forgiveness letter from the SBA for the full amount received. As such, this note is currently presented as a long-term liability on the balance sheet as of March 31, 2021.

In December 2020, The Consolidated Appropriations Act (CAA) was signed into law, which amended and enhanced some terms of the Paycheck Protection Program (PPP). Eligibility requirements were expanded to include more types of entities as well as providing existing PPP loan borrowers an opportunity to apply for a second PPP loan if they met the stated eligibility requirements. In February 2021, the Organization received a second PPP loan for $109,900. Subsequent to year end, the Organization received a forgiveness letter from the SBA for the full amount received. As such, this note is currently presented as a long-term liability on the balance sheet as of March 31, 2021.

NOTE 7 - ENDOWMENT

The purpose of the endowment fund is to provide funding for the Joan Mondale Gallery. The Organization's endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the prudent expenditure of donor-restricted endowment funds. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Organization. In making a determination to appropriate, an organization shall act in good faith with the care that a prudent person would exercise. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (perpetual endowment) (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual endowments is classified as term endowments until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.
(2) The purpose of the Organization and the donor-restricted endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation and deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of the Organization.
(7) The investment policies of the Organization.

The Organization has adopted an investment policy and philosophy that concentrates on maximizing total return within reasonable risk parameters. This is accomplished through a strategic plan that strives to maintain and grow the investment corpus and provide annual earnings to support the Organization's mission. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that preserve the inflation-adjusted value of the fund and maximize total return within reasonable and prudent levels of risk. The Organization targets a diversified asset allocation plan, sets performance benchmarks and has established various asset quality and limitation thresholds.

The Organization considers an endowment fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. There are no funds currently underwater.

NOTE 7 - ENDOWMENT (Continued)

UPMIFA permits the prudent expenditure of donor restricted endowment funds. The Organization has approved an appropriation policy of spending approximately 4.5 percent of the average quarterly value of the endowment fund's market value. The amount to be distributed shall be determined by multiplying the approved percentage by the previous five years or 20 quarter rolling average of the market value of the fund assets.

The Endowment Committee annually reviews and recommends to the Board of Directors the amount to be distributed from endowment assets for the next fiscal year.

Changes in endowment net assets for the years ended March 31, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, March 31, 2019	$ –	$ 330,547	$ 330,547
Investment Income			–
Dividend and Interest Income	–	8,950	8,950
Realized Gains	–	502	502
Unrealized Loss	–	(39,148)	(39,148)
Contributions	–	–	–
Appropriation of Endowment Assets for Expenditure	–	(13,720)	(13,720)
Endowment Net Assets, March 31, 2020	–	287,131	287,131
Investment Income			**–**
Dividend and Interest Income	**–**	**2,914**	**2,914**
Realized Gains	**–**	**1,144**	**1,144**
Unrealized gain	**–**	**145,077**	**145,077**
Contributions	**–**	**–**	**–**
Appropriation of Endowment Assets for Expenditure	**–**	**(18,301)**	**(18,301)**
Endowment Net Assets, March 31, 2021	**$ –**	**$ 417,965**	**$ 417,965**

NOTE 8 - NET ASSETS

Net assets with donor restrictions consist of the following:

	2021	2020
Purpose Restrictions:		
Endowment Fund	**$ 417,965**	$ 287,131
Artist Support - McKnight Foundation Grant	**200,000**	285,000
Artist Support - Jerome Foundation Grant	**–**	4,000
Exhibition - MSAB	**15,000**	–
Online Shop Sales - MSAB	**10,000**	–
Youth Fiber Art Guild	**10,000**	5,000
Time Restrictions:		
General Operating Support	**47,500**	–
Fundraising Initiative	**–**	37,523
Total	**$ 700,465**	$ 618,654

Net assets released from restriction were $198,224 and $295,363 in 2021 and 2020. Restricted net assets were released from restriction due to satisfaction of program and time restrictions.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Organization has a deferral-only 403b plan, which covers qualified employees. Contributions can be made during the term of employment. The Organization does not match any employee contributions.